



S/S 8518771

United States Department of State

Washington, D.C. 20520

Executive Registry

85- 043/8

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June 25, 1985

Interagency Group No. 52

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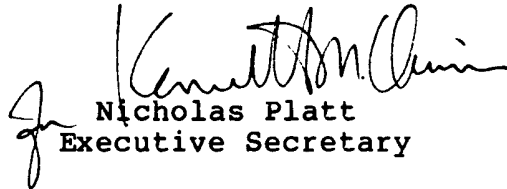
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SUBJECT: Post-Quebec NSSD on US Policy Toward Canada

Attached is a complete package of papers prepared by the State-led working groups on US policy toward Canada. These drafts, including the Executive Summary, take into account suggested changes by agencies in earlier versions.

Agencies are requested to telephone clearances to Carroll Brown, Director, Office of Canadian Affairs, at the Department of State, telephone number 632-2170. Clearances are needed by cob Thursday, June 27.


Nicholas Platt
Executive Secretary

Attachments

SECRETNSSD ON U.S. POLICY TOWARD CANADAI. Executive Summary

In the National Security Study Directive prepared before the President's March trip to Canada, Washington agencies concluded that, "Today, the tone of the Canada-United States relationship may very well be the best in 40 years." The significant accomplishments at the Quebec Summit served to corroborate that assessment and to lend new impetus to the positive direction bilateral ties have assumed in recent years.

Interagency groups have now examined how to sustain this momentum over the next few years to the benefit of both countries. They agreed that any strategy dealing with future US-Canada relations must take into account three assumptions about the future:

- Our two countries are likely to remain each other's closest ally and largest trading partner;
- Problems, some serious, are bound to persist as a result of our cohabitation of the North American continent;
- Asymmetries of population size, economic strength, and global responsibilities will unavoidably mean that the U.S. is more important to Canada than Canada to the U.S.

Given these assumptions, agencies asked themselves how the present good relations could be maintained over the longer haul. Early on, the question arose as to what constitutes good U.S.-Canada relations. The consensus was that ties between our two countries can be described as good when we address in a responsible, dispassionate way the issues which will inevitably arise and when each partner sees the other as treating it seriously and positively. With that as a general goal to be achieved and maintained, the group then defined some more specific U.S. objectives to work toward over the next 4-5 years. Following are the main goals agreed upon and recommended strategies for achieving them.

Objective: To institutionalize the present frequent high-level consultations between the two governments.

Strategy: We recommend continuation of the yearly meetings between the Prime Minister and the President, the 4-a-year sessions involving the Secretary of State and the Canadian Foreign Minister, and encouragement of other cabinet and sub-cabinet counterpart meetings.

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SECRET

-2-

Objective: To strengthen Canada's military posture and its contribution to NATO and North American Defense.

Strategy: At summits and meetings between the Secretaries of State and Defense with their Canadian counterparts, prod the GOC on this subject. As for North American Defense, we recommend a renewal of the NORAD agreement when it expires in 1986.

Objective: To encourage Canada to play a useful role in world affairs, and more particularly within the NATO Alliance.

Strategy: To emphasize to the GOC the importance the United States attaches to Canadian military and political participation in NATO, and in out-of-area regions, and to have an interagency group study the feasibility of Canada taking the lead in organizing a NATO discussion group of northern countries, including the US.

Objective: To negotiate removal of barriers to US-Canada energy trade based on market pricing.

Strategy: That we review existing barriers to US-Canada energy trade, and consult with the Canadians on their removal by 1990.

Objective: To manage the acid rain issue in such a way as to prevent damage to the overall US-Canada relationship.

Strategy: (A longer-term strategy for dealing with the acid rain issue will have to await the outcome of the Special Envoys' study.)

Objective: To negotiate a solution to East Coast fisheries issues and to implement the Pacific Salmon Treaty.

Strategy: Once industry and appropriate congressional leaders have agreed to a negotiating posture, with fallbacks, begin talks with the GOC as early as possible.

Objective: To resolve remaining boundary disputes.

Strategy: Ask the GOC to appoint a high level counterpart to Counselor Derwinski to determine whether compromise is politically possible, and, if so, to resolve remaining issues as expeditiously as possible.

Objective: To cooperate more closely in the fields of export controls and technology transfer.

Strategy: Continue working group meetings to discuss practical means of accommodating both governments' interests.

SECRET

SECRET

-3-

Objective: To enhance US public diplomacy to deal with Canadian reservations on cultural integrity and on US foreign policy goals.

Strategy: Develop a multi-year plan involving stepped-up use of speakers and more American studies programs in Canada.

In devising strategies to achieve the above goals, agencies also considered possible negative developments which could undo or reduce the level of cooperation which now exists. Four possibilities were identified:

- Recovering from the 1981/82 recession, the Canadian economy has relied extensively on exports to the United States. Should US-Canada trade decline over the next few years, and Canadian business investment be unable to pick up and create new jobs, the Canadian economy will be poorly positioned for the next recession. Mulroney will then face major political problems.
- Possible protectionist measures taken by the U.S. could affect Canada so adversely that public support for closer ties could evaporate. This possibility would be compounded if a freer trading arrangement between the U.S and Canada proves unnegotiable. Similarly, nationalist measures could be passed by the Canadian parliament which could impose additional barriers to trade and investment (both direct and financial). United States interests could be hurt and the relationship could again be soured.
- The development and implementation of U.S. foreign policies in areas already questioned by large segments of the Canadian population (e.g., Central America, arms control) could force Mulroney to renege on his promise to "give the Americans the benefit of the doubt," thus undercutting support in both countries for warmer ties.
- Disagreements are possible over future employment of space-based systems that have a wider application than continental air defense.

Other developments, such as a complete stand-off on the acid rain issue, could also jeopardize our bilateral relationship, but agencies concluded that if these four basic pitfalls can be effectively avoided, chances for a continuation of the current healthy and positive trend are excellent.

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II. POLITICAL SITUATION AND FOREIGN POLICY

A. POLITICAL SITUATION

Setting

Differences between two countries as interdependent as Canada and the United States are inevitable. Thus, ties can be described as good when we address in a responsible, dispassionate way the issues which will inevitably arise and when each partner sees the other as treating it seriously and positively. By this measure, Canada-United States relations are in very good shape.

Background

The Mulroney government is probably the most pro-American in Canadian history. The outlook for it is quite favorable. It enjoys a huge majority in the House of Commons and a high approval rating in public opinion polls. The next Canadian election, which Mulroney stands an excellent chance of winning, will probably not occur before 1988. The only dark cloud on the political horizon is the economy, and more specifically the possibility that unemployment will remain at double-digit levels.

Unlike previous governments, the Mulroney team will not be pre-occupied by the spectre of an independent Quebec. The Quebec people appear to have set aside that option for the foreseeable future. Furthermore, thanks to Mulroney's conciliatory approach, prospects are good for harmonious relations between Ottawa and all the provincial governments--a major change from the confrontational politics of the Trudeau era.

In sum, while Mulroney and his colleagues have shown a cautious approach to governing, they can confidently count on general public support and a less fractious domestic political scene than has been the case for many years.

For our part, we have been working hard to consult with the Canadians and to address forthrightly issues on the bilateral agenda.

CONFIDENTIAL

CONFIDENTIAL

-2-

However, we need be mindful of four possibilities which could undo or reduce the level of cooperation which now exists.

1. Recovering from the 1981/82 recession, the Canadian economy has relied extensively on exports to the US. If US-Canada trade declines over the next few years, and if Canadian business investment is unable to pick up and create new jobs, the Canadian economy will be poorly positioned for the next recession. Mulroney will then face major political problems.
2. Possible protectionist measures taken by the US could affect Canada so adversely that public support for closer ties could evaporate. Similarly, if the Canadian Parliament should impose new barriers to trade and investment, the atmosphere could be clouded.
3. Certain US foreign policies already questioned by large segments of the Canadian public (e.g., Central America, arms control) could force Mulroney to renege on his promise to "give the Americans the benefit of the doubt."
4. Disagreements are possible over future employment of space-based systems that have a wider application than continental air defense.

Objective

To maintain the current, positive momentum in Canada-US relations, and marshal it for more enduring impact.

Strategy

There are broad, and traditional limits to how close relations between our two countries can become. Canadians will always worry about being overwhelmed by the colossus to the south, and will feel compelled to demonstrate their independence in world affairs. It is not at all clear at the moment, though, where the specific limits to closer Canada-U.S. relations lie. The Mulroney government still has to make up its mind on such matters as an enhanced trading relationship. Our general approach should be to continue to gently encourage as close a relationship as possible, without publicly crowding the Canadian government.

CONFIDENTIAL

CONFIDENTIAL

-3-

Over the past few years we have established new, regularized contacts with the government of Canada, at the highest levels. The President has agreed to meet the Prime Minister once a year. The Secretary of State meets with his counterpart four times a year. Other meetings at the ministerial level have been occurring frequently. These contacts have been central to the new tone in Canada-U.S. relations. We recommend that they be continued.

B. FOREIGN POLICY

Setting

The Mulroney government has been making good on its pledge to give the United States the "benefit of the doubt" in world affairs. It has also launched a review of Canadian foreign policy.

Background

Canada has a long and distinguished history as a member of the Western Alliance and friend of the United States. In recent years, though, it has taken some stances which have not been entirely supportive of Western interests. The Mulroney government has reversed this trend.

Objective

To encourage Canada to play a useful role in world affairs and more particularly within the NATO Alliance.

Strategy

To explore, through an inter-agency study, the feasibility of having Canada take the lead in stimulating an informal NATO discussion group of concerned northern countries that would include Iceland, the U.K., Norway, Denmark and the US. Our presence would be justified by our northern territory -- Alaska -- and by our extensive northern defense responsibilities, from NORAD to Thule in Greenland to our defense commitments in Iceland and to the reinforcement of Norway. Our participation would be essential to give the discussions shape and direction, without which the anti-defense bias of the Nordic states would quickly doom any Mulroney initiative to sterility.

CONFIDENTIALIII. DEFENSE AND SECURITYSetting

Although the Mulroney Government is considerably more "pro-defense" than were the Trudeau Governments, the May 1985 Canadian budget continues the very minimal commitment of resources to the military sector, allocating only 2.1% of GNP to defense. Indeed, by virtually any measure of allied burdensharing, Canada has for many years been at or near the bottom. At the same time, the Canadian Government has been pressing DOD to expand cooperation under the Canada-US Defense Development/Defense Production Sharing Arrangements (DD/DPSA), principally as a means of increasing Canadian access to US defense contracts and advanced technology in pursuing their overall goal of enhancing the Canadian economy.

Background

Our close and long-standing security relationship with Canada is based on our cooperation in defending the North American continent through NORAD and our joint participation in the Atlantic Alliance. Unfortunately, the Trudeau Governments' 16 years of underfunding of Canada's military structure and its early 1970's decision to downgrade Canadian participation in NATO have sharply reduced Canada's ability to play a security role commensurate with its resources. In preparation for the Quebec Summit of March 1985, the Mulroney Government took several actions to lend some credibility to its previously stated objectives, which are to reverse the decline of Canada's military strength, to enhance its contribution to the Alliance, and to be an effective partner in continental defense. These actions include adding 1200 more troops to NATO, signing the North American Air Defense Modernization MOU (Canada is contributing 40% of the \$1.1 billion North Warning System), and modernizing their three fighter squadrons in Europe with CF-18 aircraft.

In reaffirmation of DOD defense trade policy with Canada, the US Secretary of Defense in October, 1984, reaffirmed that defense trade should be maintained in balance over time and agreed to seek ways to increase both the volume and sophistication of that trade. Additionally, in the March 1985 Declaration on Security, the President and Prime Minister agreed to strengthen further defense economic cooperation and required their respective ministers report the progress achieved within four months.

CONFIDENTIAL

CONFIDENTIAL

-2-

During the next three to five years, the following events will play a part in refining our evolving defense relationship with Canada: defense ministers' reports and agreements on defense economic cooperation, decisions on the US Space Command with respect to NORAD, publication of the Canadian defense policy white paper, subsequent US-Canada summit meetings, Canadian budget changes with respect to defense, and renewal of the NORAD Agreement.

Objectives

- To urge Canada to strengthen its defense capabilities.
- To enhance US-Canada defense economic cooperation.
- To strengthen North American air defense.
- To encourage Canadian military participation in out-of-area peacekeeping.

Strategy

The US policy should continue to urge Canada to strengthen Canadian defense capabilities to those more commensurate with its resources, to encourage the Mulroney government to increase the size of its armed forces, and to urge Canada to continue to move toward contributing a fairer share in support of NATO. The Canadians will try to show that they adhere to the philosophy of annual three percent real increase in defense spending. Canada's contribution of GNP to defense has been only 2.1% over time. The US should encourage Canada to program future increases to achieve a more equitable contribution to the common defense and the enhanced international influence this will accrue.

The US policy should try to enhance US-Canada defense economic cooperation through increased Canadian participation in projects managed through the US-Canadian defense development and defense production sharing arrangements. Implementation of this policy should include assisting the Canadian defense industry in becoming more competitive in the North American industrial base, recognizing the extremely limited maneuverability that will exist in directing procurements from Canadian sources, and taking credit for future defense economic benefits that Canada receives from the US as a result of US efforts to increase armaments cooperation with NATO allies. We must simultaneously encourage improved Canadian safeguards against unauthorized transfers of strategic technology. If and when the Canadian Government develops a policy that would allow the Government to participate actively in the US Strategic Defense Initiative (SDI) research program, for example, the US should pursue appropriate joint research projects with the Canadian Government and industry.

CONFIDENTIAL

-3-

The US policy should encourage Canadian participation in strengthening North American air defense through renegotiation of the NORAD Agreement, execution of the March 1985 North American Air Defense (NAAD) Modernization MOU, and development of appropriate follow-on agreements to upgrade jointly components of the NAAD system. Implementation of this policy requires US sensitivity to the Canadian Government's need for consultation on two political issues: the impact upon NORAD by creation of a US Space Command and Canada's possible future involvement in SDI.

The US policy should encourage Canadian participation in peacekeeping and other roles in out-of-area regions. The policy should emphasize close consultations in pursuing Canadian initiatives for maintaining stability, furthering economic growth, and strengthening democratic institutions, particularly in the Western Hemisphere, albeit not at the expense of increased support for NATO. Specifically, Canada could serve a useful role through eventual membership in the Commission for Verification and Control in the Contadora process. It could also assist by offering aid and training to police forces throughout the Caribbean Basin, an activity in which the US is currently prohibited by law from participating.

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CONFIDENTIALANNEX TO CHAPTER III, DEFENSE & SECURITYCanadian Defense Capability

Over the past decade plus, Canada has been a low contributor to its own defense as well as toward NATO. In terms of economic capability, Canada has the third highest per capita gross domestic product (GDP) of the NATO countries, which is 93.1% of the highest NATO country (Norway). In terms of defense burdensharing, Canada contributes less than half its "fair" share to NATO, with only Luxembourg providing less. In terms of total NATO defense manpower, Canada accounts for 1.12%, which is the third lowest in NATO. Compared to the United States, Canada has about 10% of our population and 10% of our GDP. Yet Canadian military manpower is about 3.8% of DOD military manpower, while Canadian defense spending is equivalent to 2.15% of the DOD budget. Additionally, over the last several years the US defense budget has increased between 20% and 7% in real growth (20% in 1982; 13% in 1983; 8% in 1984; 7% in 1985). The Canadian defense budget has more or less been constant at 3.8% real growth for the last five years. The Canadian position has been that it will adhere to NATO's 3% real growth target.

The Mulroney Government, and the Prime Minister in particular, have stated a determination to reverse the decline of Canada's military strength, to enhance its contribution to the Alliance, and to be an effective partner in continental defense. In agreeing to the North American Air Defense Modernization, MOU, Canada is contributing 40% of the North Warning System and approximately 14% of the overall continental radar surveillance modernization package (including over-the-horizon backscatter radars), which is a major achievement for them. Additionally, Minister Coates told Secretary Weinberger and the other NATO defense ministers during the December 1984 Ministerial in Brussels that Canadian recruitment of an additional 8,000 people, which would raise the total armed forces strength to 90,000, would begin in April, and these added troops would be committed to Europe. The Government announced in early March 1985 that Canada is augmenting its brigade in Europe with 1200 more troops along with dedicating a Canadian battalion (300 - 600 troops) to the Central Region Mobile Force.

Strong economic pressures are working to limit or slow down the government's plans. Canada's Defense Policy Review was launched to redefine Canada's defense priorities and its NATO role and to suggest what budgetary resources should be devoted to achieving them.

CONFIDENTIAL

CONFIDENTIAL

- 2 -

Defense Trade and Economic Cooperation

The Canadians have historically pursued expanded cooperation in defense production and procurement, which Canada has long regarded as a critical economic and technological benefit flowing from its defense relationship with the US. In recent years, they have pursued the objective of balancing the defense trade which, though at approximately a 1.2:1 ratio, has accumulated approximately a \$1.4 billion deficit from their viewpoint. In managing this aspect of our defense relationship, the US and Canada have made the following commitments to each other:

-- On 4 October 1984, the Defense Ministers reaffirmed the existing understanding that defense trade between Canada and the United States under the Defense Development and Defense Production Sharing Arrangements should be maintained in balance over time. They both agreed to seek ways to increase both the volume and the sophistication of United States defense procurement in Canada.

-- In the 18 March 1985 Declaration by the Prime Minister of Canada and the President of the United States Regarding International Security, in addition to again reaffirming the joint sharing arrangements, our two governments also extended the following commitments to each other:

- Recognizing the importance of access to, and participation of, Canadian firms in the US defense market, we will work to reduce barriers and to stimulate the flow in defense goods.
- We will seek to improve our joint access to information relating to defense procurement.
- We will explore ways to establish a separate designation for mobilization base suppliers for US and Canadian firms, and we will seek to take greater advantage of flexibility inherent in second source suppliers.
- We will undertake to establish a freer exchange between both countries of technical knowledge and skills involved in defense production, in order to facilitate defense economic and trade cooperation and joint participation in major defense programs. We also agree to strengthen our cooperation to ensure that transfers of strategic technology to our potential adversaries are effectively controlled.

CONFIDENTIAL

CONFIDENTIAL

-3-

North American Air Defense (NAAD)

After much intensive negotiations, on 18 March 1985 the United States and Canada signed the Memorandum of Understanding on the Modernization of the North American Air Defense System. This MOU defined the components of the NAAD modernization effort including the North Warning System (NWS), logistics support for the NWS, Over-the-Horizon-Backscatter (OTH-B) radars, radar coverage in North America provided by USAF Airborne Warning and Control System (AWACS) Aircraft, forward operating locations and dispersed operating bases for AWACS aircraft, fighter aircraft at existing airfields in Canada, and communications and other equipment to provide connectivity and interoperability of the system components. The MOU also established responsibilities, including responsibilities for deploying, managing, and operating components of the air defense system. The MOU established a basis for cooperation on advanced research and development of technology for air defense. Canada and the US have also begun discussions on renewal of the current five-year North American Aerospace Defense (NORAD) Agreement, which establishes the basis for the US-Canada combined command and which will expire on May 11, 1986.

Canada's Role in SDI

In October 1984 the US briefed officials in Canada on the SDI program and informally invited the Canadians to send a technical team to the United States to explore areas of cooperation. In January 1985, Canadians sent a team that succeeded in identifying some functional areas for cooperation; however, the Mulroney Government decided that Canada must first develop a government policy outlining its position on SDI and cooperation with the United States in this research.

The Canadian Government will probably develop and refine a policy that protects Canadian sovereignty, will be consistent with Canadian nuclear policy, and will provide Canada an air of acting independently, three issues that the governmental opposition and press vociferously watch. Canada, like many other countries is very likely to seek participation to obtain contractual and spinoff benefits. Details and procedures on Canadian participation in research projects will require much work on the technical level.

Arms Control

In preparation for the Quebec Summit of March 1985, the Canadians sought to establish a new arms control consultative mechanism to show that the Canadian Government could influence the arms control and negotiating policies of the United States before decisions are made. The Government tends to view its

CONFIDENTIAL

-4-

efforts in this arena as a way of demonstrating Canadian sovereignty while simultaneously using the results in this area to balance commitments to the United States in other areas of the overall relationship.

In international fora, the Canadian Government has supported our need for significant, equitable, durable and verifiable arms control measures to strengthen strategic stability, maintain our security at a lower level of force and armament, build trust and confidence between East and West, and reduce the risk of war. Additionally, our governments have agreed to consider joint research efforts to strengthen our capacity to verify agreements on the control of armaments. In the spirit of mutual trust and confidence between our two countries, we have committed ourselves to consult fully, frankly, and regularly on arms control matters.

US-Canada cooperation in Central America/Caribbean, the Pacific Basin, and other regions.

The Canadian Government has quietly inquired about US reactions to proposals for an enhanced Canadian security role in other regions. The Central American, Caribbean, Pacific, and Middle East regions are ones of common interests and concerns to Canada and to the United States in terms of maintaining stability, furthering economic growth, and strengthening democratic institutions, particularly in the Western Hemisphere. Canada could serve a useful role through eventual membership in the Commission for Verification and Control in the Contadora process. They could also assist by offering aid and training to police forces throughout the Caribbean Basin, an activity in which the US is currently prohibited by law from participating. Canada has also made known its intentions to replace the Australian observers in 1986 in the 11-nation Sinai Peacekeeping Force.

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VII. FREER NORTH AMERICAN ENERGY TRADE

Setting

The US and Canada have recently moved their bilateral oil and gas trading policies to a more market-sensitive basis. In line with the Quebec summit declaration, both countries have decided to liberalize crude oil exports to each other. This spring, Canada moved to dismantle most of its highly nationalistic and interventionist National Energy Program (NEP) established in 1981.

Background

Canada is by far our largest energy partner. Currently, Canada is our number 1 foreign supplier of oil & product (750,000 b/d), natural gas (940 bcf - 1 tcf/yr), and electricity (39 bkwh/yr). We, in turn, are Canada's largest supplier of coal (20 million tons/yr). While our energy trade exceeds \$10 billion, Canada's enormous energy reserves, especially gas and hydropower, suggest US/Canadian energy trade has the potential to increase significantly, benefiting both countries.

The recent increase in energy trade has been the direct result of both governments' relaxing controls to allow prices to be set by competitive supply-and-demand forces. Fulfilling the joint pledge made in the Reagan/Mulroney Quebec trade declaration of March 18, 1985, Canada decontrolled its crude oil exports to the US on June 1, 1985 and we lifted our restrictions on crude oil exports to Canada via a Presidential finding on June 14, 1985. In the same declaration, our two countries pledged to reduce energy trade restrictions, to maintain and extend open access to each's other coal, natural gas, electricity and oil markets, and to standardize, reduce and simplify regulatory requirements which would facilitate trade in goods and services.

In March, Ottawa announced its Western Energy Accord that substantially dismantles Canada's National Energy Program by eliminating/phasing out special energy taxes and discriminatory energy incentive programs as well as by calling for a more market-sensitive regime for the domestic gas industry.

-2-

Energy restrictions, however, still exist. Prime Minister Mulroney has pledged to eliminate the NEP's retroactive "back-in" provision that allows the GOC to take retroactively without adequate compensation a 25% share of successful energy discoveries made on Canada lands. In April, we sent the GOC a diplomatic note requesting once again that the GOC remove the retroactive "back-in" as well as the NEP'S retroactive "Canadian ownership rate" provision, which retroactively prohibits the licensing of companies without 50 percent Canadian ownership for hydrocarbon production on "Canada Lands." On June 19, the Goc announced that it will introduce legislation this fall to eliminate the retroactive "back-in". Canada also continues to have a floor price for gas exports to the US based on the wholesale price of gas in Toronto.

US Objectives

Over the next five years, our main goal is to continue the movement based on market forces toward a uniform North American energy market with Canada by maintaining and extending open access to each other's oil, natural gas, electricity and coal markets. Specific measures needed in this regard are:

--Elimination of the retroactive "back-in" and "Canadian ownership rate" provisions of Canada's National Energy Program as well as further easing of restrictive Canadian investment regulations.

--GOC removal of Toronto city-gate floor price for gas exports to the US.

--Greater coordination between US and Canadian energy regulatory bodies, particularly with respect to private sector pipeline proposals to transport oil and gas to the United States from the Canadian Beaufort Sea and offshore Atlantic Coast regions.

--Elimination of Canadian federal/provincial subsidies for energy development.

--Enhanced energy R&D cooperation.

--Maintain support for the regulatory system underpinning the Alaska Natural Gas Transportation System (ANGTS) based on private financing and assist in expediting regulatory decision affecting commercially viable energy project from the US and Canadian Arctic regions.

-3-

Strategy

The basic framework of our energy policy with Canada is agreed on and in place: a reliance on market forces. However, as our energy trade expands, one must expect increased chances for disagreement, particularly over potential conflicting decisions of energy regulatory bodies on each side of the border. To smooth out these possible conflicts and to push our objectives, consultations and coordination utilizing the US/Canadian Energy Consultative Mechanism (ECM) and contacts at all government levels will become even more important. For example, we will continue to hold two full ECM meetings a year plus restricted ECM meetings on case specific issues. Since the development of Canadian energy projects to serve primarily the US market will be capital intensive, great care must be taken to assure that the bilateral investment climate is favorable. This necessitates an early end to the retroactive provisions of Canada's National Energy Program. Finally, enhanced R&D cooperation can make both governments' limited R&D funds go further.

CONFIDENTIAL

VIII. ENVIRONMENT

A. Acid Rain and the Special Envoys

Setting

The President and Prime Minister Mulroney decided at the March, 1985, Quebec Summit to appoint a high level special envoy for each government to examine the acid rain issue and to report to the President and Prime Minister by their next meeting. The President indicated his satisfaction at "getting this underway and off dead center" and committed himself to "go forward with finding an answer to what is a problem that belongs to both of us."

Objectives

The agreed objectives on the special envoys are to:

- pursue consultation on laws and regulations that bear on pollutants thought to be linked to acid rain;
- enhance cooperation in research efforts, including that for clean fuel technology and smelter controls;
- pursue means to increase exchange of relevant scientific information; and,
- identify efforts to improve the US and Canadian environment.

Strategy

The US strategy to achieve these objectives should be to support the special envoy process and avoid any actions or statements that might undermine this effort. Further steps to deal with the transboundary implications of acid rain, therefore, should be deferred until both governments consider the report of the special envoys.

CONFIDENTIAL

CONFIDENTIAL

-2-

B. Other Environmental Issues: Great Lakes/NiagaraSetting

Aside from acid rain, the Great Lakes are the major area of US-Canadian environmental interaction. The Great Lakes Water Quality Agreement (GLWQA) of 1978 governs US-Canadian cooperation in reducing pollution. It is considered a major success, although some problems (such as toxic chemical pollution) remain troubling. The Niagara River is a crucial sub-set within the Great Lakes environmental effort. More than 100 toxic chemical dumps exist on the US side of the river within two miles of the river. Several are actively leaking into the river, and all are believed to have the potential of doing so -- with implications for both countries.

Background

The population within the Great Lakes basin is roughly two-thirds US, one-third Canadian. Both countries have large industrial and municipal point sources of pollution, both are additionally concerned about non-point sources such as farm run-off, and neither country can clean up the Great Lakes alone. US-Canadian cooperation generally has been good, and achievements over the last fifteen years have been significant. The GLWQA functions by setting goals, which each country can meet in its own preferred manner. While victory is in sight against older categories of pollution, such as phosphorus, new concerns have arisen over pollution by very low concentrations of toxic chemicals.

The Niagara River situation is a special aspect of the toxic pollution problem. Many large chemical dumps, including such infamous sites as Love Canal, line the US side of the river. Toxics are leaking into the river, and ultimately into Lake Ontario. Opinion in Ontario Province is aroused, and the problem could become a serious bilateral irritant if evidence of bio-accumulation and health dangers continues to grow.

A special circumstance over the next year will be the need to conduct a joint review of the effectiveness of the GLWQA and, if appropriate, to renegotiate and revise that Agreement.

CONFIDENTIAL

CONFIDENTIAL

-3-

Objectives

-- To protect US and Canadian water users from pollution caused by either country.

-- To prevent Canadian perceptions of US pollution from becoming a serious irritant to bilateral relations.

Strategy:

Since a substantial common interest exists, our basic strategy should be to cooperate with Canada in controlling Great Lakes pollution problems, as provided for under the GLWQA and US domestic legislation.

Points of friction are likeliest when the domestic regulatory process is most rigid and offers fewest opportunities for meaningful consultations with the other country. In the US, the Niagara problem areas are very tightly circumscribed by over-lapping federal laws and the progress of several important lawsuits now before the federal courts. We should brief the GOC exhaustively about the progress of US cleanup efforts and the technical expertise behind our plans, while soliciting their comments and responding promptly to their suggestions. Where we decide to take an action that agrees with a Canadian recommendation, we should encourage the Canadians to portray our action to their public as the fruit of US-Canadian cooperation.

At the same time, we should prevent exclusive focus on US problems by taking the offensive when Canadian pollution is at fault. EPA should assign adequate resources to monitoring Canadian pollution that affects US boundary waters and is, therefore, of legitimate concern to us under the terms of our 1909 treaty with Canada.

CONFIDENTIAL

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IX. A. PACIFIC FISHERIES

Setting:

Early in 1985 the United States and Canada concluded a comprehensive Pacific salmon treaty after nearly 15 years of negotiations. Difficult start-up problems are now being addressed relative to the establishment of the institutions called for by the treaty. Both sides are informally implementing the treaty, pending the establishment of those institutions. Negotiations aimed at an agreement on Yukon River salmon fisheries are to begin in October.

Background:

Conclusion of the Pacific Salmon Treaty has called for intensive efforts on both sides to establish a bilateral commission and three regional panels. This organization will provide the institutional focus for dealing with bilateral salmon conservation and enhancement from northern California to southeastern Alaska. As initial interception limitation arrangements in the Treaty expire, the organization will be responsible for new ones.

In the negotiations toward the Treaty, Canada repeatedly insisted that arrangements also be concluded that address problems of the Yukon River salmon fisheries. The Yukon is now the subject of further negotiations that are likely to be protracted and contentious because Canada insists that we pay it for the Canadian origin salmon that U.S. fishermen catch. Inevitably, they will widen to examine what both countries are or should be doing about Japanese high seas salmon fishery interceptions of both U.S. and Canadian origin, including Yukon River runs.

Goals:

The goals are several: (1) successful implementation of the Pacific Salmon Treaty, including provision of financial resources for salmon management and enhancement responsibilities under the Treaty; (2) successful conclusion of Yukon River negotiations by getting the Canadians to accept agreed management of the Yukon fisheries, rather than establishing a U.S. debt for Canadian fish caught; and, (3) reduction of Canadian interceptions of U.S. salmon.

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-2-

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Strategy:

Implementation of the Pacific Salmon Treaty and enhancement cooperation will involve funding commitments in both countries that are likely to be difficult given budget constraints on both sides. We should ensure adequate financing of this Treaty.

We must convince Canada to drop its debt approach to the Yukon negotiations. Moreover, political support in Alaska for a Yukon agreement with Canada is contingent upon further reductions in Japan's high seas salmon interceptions. Thus far, Canada has been a reluctant ally in U.S. efforts in the International North Pacific Fisheries Commission (INPFC) (to which Canada, Japan and the United States belong) to obtain further concessions from Japan. We will need to convince Canada that it must play a more active role if we are to find acceptable solutions on the Yukon.

For some years, there has been discussion in both countries of broadening the scope of INPFC's scientific work to include other Pacific fishery resources (non-salmon) of mutual interest and to increasing the number of Pacific Rim nations involved. This is a fertile area and one we may wish to explore more formally with Canada.

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IX. B. ATLANTIC FISHERIES

Setting:

The United States and Canada face a number of contentious fisheries problems on the east coast following delimitation of the maritime boundary in October, 1984. These problems include fisheries trade, access, and management components. Thus far, both sides have moved slowly, seeking to build domestic consensus on what needs to be done and how to approach the problems.

Background:

The ruling of the International Court of Justice in October, 1984, gave Canada about one-sixth of Georges Bank, eliminating U.S. access to important, traditional fishing areas. With broad domestic support, the United States proposed a return to the status quo ante in December, 1984, for a one-year period. Canada quickly rejected this proposal.

The ITC published results of its study of competitive conditions in the east coast fishing industries last fall. The study concluded, inter alia, that government subsidies favor Canadian fish suppliers over the U.S. industry. Since then, the New England fishing industry has coalesced behind efforts to bring a countervailing duty petition against imports of subsidized Canadian fisheries products. Some elements of the New England industry want to trade market access or other considerations for access to Canadian waters. Some favor negotiation of a "suspension agreement" setting aside the countervailing duty petition, once it is filed, in return for Canadian concessions. Management issues related to stocks of fish that straddle the U.S. and Canadian fishing zones increasingly concern fishery managers in both countries.

Objectives:

Our objective should be to work actively with industry and Congressional interests to form the consensus necessary for negotiation of some issues with the Canadians by 1986. Major elements for that consensus encompass the following issues.

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-2-

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a) The New England industry is particularly anxious to eliminate what it considers to be unfair, subsidized Canadian competition in the marketplace. A countervailing duty petition may or may not accomplish this. Moreover, the structure of the New England fish market itself is part of the problem, with buyers exercising considerable influence over prices while sellers are fragmented. Other possibilities are that Canada will work toward orderly marketing arrangements or shift its exports to other U.S. markets, beyond New England. It is unlikely that Canada will completely eliminate subsidies to its fishing industry, given the paucity of other employment and the generally depressed economy in the Maritimes.

b) The New England industry would also like to gain access to Canadian waters, a goal difficult to achieve without some reciprocity. Few bargaining chips have as yet been identified, and those that may exist could provide benefits to fishermen in one area at the expense of fishermen in another, making the political consensus necessary to offer them difficult to obtain.

c) Fishery managers would like to find a means of cooperating in the management of fish stocks that range across the boundary. Initiatives in this area will be controversial, since the inevitable compromises may be seen in the industry to impinge on U.S. management prerogatives and to usurp regional domestic authority.

Strategy:

The problems are too large and the interests affected too diverse to expect success through a frontal assault. Some problems, such as access, may lose their immediacy over time as fishermen adjust to the new boundary. Others, such as fisheries trade, may become less amorphous and more susceptible of specific solutions as both industries explore and identify specific irritants. Easing current tensions in the access and trade areas ultimately will make it easier to deal with management issues.

Consequently, we should seek progress on a number of fronts that will contribute incrementally to a consensus on both sides that will facilitate broader agreement. This will require close contact and involvement by the domestic fishing industry and Congressional figures at each stage as we proceed.

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-3-

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Initiatives that should be considered include a joint study group chaired by New England and Maritime Canadian university experts to discuss U.S. and Canadian fishery management practices. This seminar-style group would improve understanding on both sides of the complex management issues, paving the way for eventual agreement on certain of them. A second initiative would be a public or private study of ways to improve the efficiency and transparency of operation of New England markets for fish products. Market improvements would benefit both U.S. and Canadian fishermen, while reducing one of the chief irritants to our industry. A third initiative would be for State and Commerce (NMFS) to work with New England Congressional interests to promote legislation giving the Administration, in consultation with the industry, greater flexibility under the Magnuson Fishery Conservation and Management Act to conclude modest fishery management and marketing arrangements with Canada that can be demonstrated to provide mutual benefits. Progress on all of these fronts could move us gradually toward more comprehensive arrangements with Canada on east coast fisheries.

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X. A. LEGAL: MARITIME BOUNDARIES

Setting: The United States and Canada have three maritime boundary disputes: (1) the Beaufort Sea (north Alaska and the Yukon Territory); (2) Dixon Entrance (southeast Alaska and British Columbia); and (3) seaward of the Strait of Juan de Fuca (Washington State and British Columbia). The Parties have tacitly assumed that these west coast disputes would be addressed after delimitation of the Gulf of Maine maritime boundary, which was completed in October 1984 by the International Court of Justice.

Background: The three west coast areas are of substantial resource interest. Particularly, oil lease bids for the disputed area in the Beaufort Sea are being held in escrow, pending resolution of the maritime boundary. Dixon Entrance and the Strait of Juan de Fuca areas support lucrative salmon and some groundfish fisheries. The Dixon Entrance dispute is especially politicized locally, where Canadian fishermen harvest salmon immediately off United States shores in the disputed area which abuts United States (but not Canadian) coasts. Background on the respective legal positions is annexed to this document.

Objectives: The objective is to resolve the disputes in a politically satisfactory way. This will involve compromise. In the Beaufort Sea, we seek to provide U.S. companies maximum access to the resources of the disputed area through either a joint arrangement with Canada, or a compromise boundary line. In the Dixon Entrance, where the disputed area abuts United States coasts, we need at least a three nautical mile territorial sea for exclusive United States fishing, and resolution of minor technical differences in the seaward area. Seaward of the Strait of Juan de Fuca, though our differences are not substantial, we seek to resolve our technical differences.

Strategy: We should enter serious discussion only if our political constituencies determine that they are sufficiently desirous of resolution to accept compromise of third party settlement. Our informal discussions with some of the constituencies lead us to believe a compromise may be possible. Negotiations will be highly politicized. Any agreement probably will be permanent. Thus, the effort requires appropriate political input.

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- 2 -

Counselor Edward Derwinski has undertaken to explore with United States interests and Canada the prospects for resolution. We recommend that the United States (1) request that Canada appoint a counterpart to Counselor Derwinski to oversee the disputes as soon as practicable; (2) that the appointed senior officials sound out the political constituencies to determine, by next fall, if there are grounds for acceptable compromise, perhaps first focussing on the least contentions disputes seaward of the Strait of Juan de Fuca; and (3) if there are grounds for acceptable compromise, publically instruct these senior officials to resolve these issues expeditiously.

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Annex

Summary of U.S. and Canadian Maritime Boundary Positions

Beaufort Sea

In the Beaufort Sea, in contrast to the U.S. equidistant line, Canada claims that the maritime boundary extends from the land boundary along the 141° W. meridian. This maritime boundary, Canada argues, was established when the territorial boundary was prescribed by the 1825 U.K.-Russia boundary treaty, the terms of which were incorporated into the 1867 U.S.-Russia Convention of Alaskan cession. We reject this interpretation. (Although the U.S. regards the line established by another provision of the same 1867 Convention as the U.S.-U.S.S.R. maritime boundary in the Bering Sea, the language of the two provisions is different as well as the subsequent practice of the parties.) U.S. oil companies have expressed substantial interest in the Beaufort Sea boundary area. In light of the dispute, bids for these tracts have been placed in escrow by the Department of Interior, subject to withdrawal by the bidder after 5 years if not accepted by then. Canada has issued exploration leases, though we believe actual drilling has not yet occurred.

Dixon Entrance

Inside Dixon Entrance, differences turn on the application of a line drawn by a 1903 U.S.-U.K. boundary tribunal that was tasked, inter alia, to determine the sovereignty of four islands in Dixon Entrance. The tribunal allocated two islands to each Party by drawing a line from Point A on Cape Muzon to Point B at the entrance of Portland Canal, the so-called A-B line. Canada claims that this line -- which abuts U.S. but not Canadian territory -- establishes the maritime boundary. We reject this view. The practice of each party has been inconsistent. This boundary area is a prime fishing site and source of intense political sensitivity locally. Canadian companies may drill in the area, thus aggravating the dispute.

Seaward of Dixon Entrance, Canada and the U.S. both have applied equidistant lines. By diplomatic note of December 1984, however, Canada served notice that it only applied the equidistant line for fisheries purposes. By implication, any new claim would intrude further into the U.S. claim.

Seaward of the Strait of Juan de Fuca

Seaward of the Strait of Juan de Fuca, the U.S. and Canada each have applied an equidistant line. Small technical differences in depiction need to be resolved. Canada, however, has never formally declared its position, and sometimes (most often upon urging from British Columbia) has threatened to take a more aggressive position along a submarine canyon that would cut deeply south toward Washington State. Canada has also sought to link settlement with resolution of the Dixon Entrance dispute.

Revised 6/20/85 (1)

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X. B. LEGAL: EXTRATERRITORIALITY

Setting

Progress has been made on two major issues - antitrust and mutual legal assistance, but other issues, such as subpoena enforcement and export controls, require close attention.

Background

Agreements have been signed on antitrust and mutual legal assistance. Regarding antitrust, the Memorandum of Understanding providing for notice of and consultation of antitrust actions is working reasonable well. A mutual legal assistance treaty has been signed by the U.S. and Canada and awaits ratification; this may help to relieve problems concerning the evidence gathering from Canadian territory.

Other areas remain difficult. The mutual legal assistance treaty will not settle the contentious issue of subpoena enforcement against branches of Canadian banks doing business in Caribbean bank secrecy jurisdictions. In addition, the export control issues of licensing procedures and enforcement continues to be of concern to both the U.S. and Canada.

U.S. Objectives

-- Anticipate and resolve export control issues

Strategy

Intergovernmental discussions on export control issues should be held regularly. These could be used, inter alia, to inform the U.S. of Canadian concerns when export controls are extended to new products or new countries and to inform Canada of U.S. concerns over inadequate enforcement of Canadian export controls on strategic commodities. In addition, the U.S. government should work on internal coordination to ensure that export controls are not extended more widely than necessary to meet U.S. needs.

-- Manage Problems of Subpoena Enforcement against Off-Shore Branches of Canadian Banks

Strategy

On banking subpoenas, the U.S. should seek through internal coordination to ensure that evidence is sought from U.S. sources of information before it is sought from off-shore branches of Canadian banks and that efforts are made with those banks, as well with the governments of Canada and the country where the branch may be located to secure permission for release of the documents.

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It is sometimes difficult for the United States to elicit public understanding and support in Canada. But lack of information is not the reason. Canadians head south across the border some 23 million times a year. They watch almost as much US television per capita as Americans do. American books and magazines are sold everywhere, and American educational material are used extensively in Canadian schools. Despite this plethora of information, a US government-sponsored public diplomacy effort is clearly needed.

Background

The Northward flood of data is filtered through Canadians' awareness of the great disparity in impact the two societies have on each other and on the world. Conscious of their own intense interest in the United States, they note the relative indifference of most Americans to events in Canada. Such distinctions go far to explain the resentment felt by many Canadians who consider themselves constrained or pressured to follow the American lead. It also explains their propensity for seeking out opportunities to differ with the US and to demonstrate -- at least to themselves -- their separate identity and independence.

Canadian views of the U.S. are further colored by the emphasis American media places on its role as watchdog and critic of the establishment. American leadership is subjected to the same scrutiny in Canada as in the United States -- and suffers the same loss of credibility and confidence when found wanting.

Suspensions aroused by real differences in power cannot be assuaged through communication alone. Canadians know that public diplomacy is not a substitute for public policy. However, given policies that take Canadian interests into account, public diplomacy can play an important role in enlisting public support. Canadians may be more conscious, by and large, than Americans of the differences between our two societies, but they are also aware of our common interests and interdependence. Understanding and cooperation can be enlisted if justified on the grounds of Canadian as well as US interests, and if those grounds are well explained. Canada's own democratic

CONFIDENTIAL

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-2-

traditions, historical development and political system (different from our own in ways that often encourage greater divergence of regional interests than in the US) will always ensure a thorough debate of any issue. We can rarely, if ever, hope to make a point by default.

Objective

To convey to Canadians that the US Government currently pays more high-level attention to Canada-US relations than most Canadians realize. This attention includes frequent consultations with Canada at the ministerial level.

Strategy

Every effort should be made to publicize the substance, as well as the fact of these consultations--and of working-level consultations in all areas--through the American Embassy and USIS Ottawa. Opportunities should be explored to have senior US officials visiting Canada deliver prepared remarks touching on aspects of Canada-US relations. These opportunities should include the visits to Canada by the Secretary of State.

Objective

To allay Canadian suspicions of US security policies that in the eyes of some Canadians, sharpen conflict with the Soviet Union. Canadians' awareness of their dependence on the US for military security, their determination to remain a non-nuclear arms state, and their self image as international peacemakers, create fertile ground for those who cast doubt on American sincerity in striving for arms control agreements.

Strategy

Provide comprehensive explanations of US security policies and objectives, buttressed by persuasive evidence of their need for them. Of special importance are issues related to the Geneva arms control negotiations, continued strengthening and cohesion of NATO, and modernization of North American air defense.

Objective

To discourage Canadian fears that economic or political sovereignty would be diminished as a result of a further enhanced Canada-US economic relationship.

CONFIDENTIAL

CONFIDENTIAL

-3-

Strategy

US Government opposition to protectionism, the advantages to Canada of US global trade objectives, and US commitment to equitable, mutually advantageous economic relations should be stressed.

Objective

To convey, with respect to acid rain, that US environmental policy is not just an excuse for inaction. The US has, in fact, an unparalleled history of environmental action, including a long record of environmental cooperation with Canada.

Strategy

We recommend that we continue to stress the depth of Canada-US environmental cooperation, as manifested in such successes as the work of the International Joint Commission. With respect to acid rain, we should continue to demonstrate in concrete detail why and where further research is needed, and to make public ongoing progress reports.

Objective

To foster a better understanding in Canada of American society. Despite proximity and the extensive exposure of Canadians to American media, important aspects of American life remain much less understood than many Canadians realize. Given different historical, social and political traditions, this is hardly surprising.

Strategy

Efforts to encourage the expansion of policy-relevant American studies programs in Canadian institutions should continue, and consideration should be given to providing additional support for the establishment of mutually beneficial exchanges between Canadian and American institutions.

At present, there are USIS branch posts, staffed by an American officer and one or two Canadian employees, in Montreal, Toronto and Vancouver, in addition to a staff of three American USIS personnel in Ottawa. Should additional personnel and financial resources become available, consideration should be given to establishing a small USIS office in the Consulate in Winnipeg, to provide continuity of contacts with important media and academic institutions and more public affairs programming.

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